利·寶·閣

Li Bao Ge Group Limited
利寶閣集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1869)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

Reference is made to the announcement of Li Bao Ge Group Limited (the "**Company**", together with its subsidiaries, collectively the "**Group**") dated 29 March 2022 in relation to the unaudited financial results for the year ended 31 December 2021 (the "**Unaudited Financial Results Announcement**"). Terms used herein shall have the same meanings as those defined in the Unaudited Financial Results Announcement unless the context requires otherwise.

AUDITED ANNUAL RESULTS

The Board is pleased to announce that the Company's auditor, Ting Ho Kwan & Chan CPA Limited, has completed its audit of the consolidated financial statements of the Company for the year ended 31 December 2021 (the "**2021 Annual Results**") in accordance with Hong Kong Standards on Auditing, and hereby announces the 2021 Annual Results, together with the comparative figures for the previous financial year ended 31 December 2020 as set out below. This annual results announcement has been reviewed by the audit committee of the Company (the "**Audit Committee**").

Shareholders and potential investors should be aware that this announcement of audited financial results for the year ended 31 December 2021 (the "Year") was made to replace the Unaudited Financial Results Announcement which has not been agreed with the auditor of the Company.

The Board would like to draw attention to the Shareholders and potential investors that, there were no changes contained in the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of financial position, the 2021 Annual Results are consistent with the unaudited financial results contained in the Unaudited Financial Results Announcement.

Shareholders and potential investors are advised to exercise caution when dealing in the shares and other securities of the Company.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Notes	2021 HK$'000	2020 HK$'000
Revenue	6	**274,566**	236,397
Other income	7	**6,656**	21,728
Other gain		**5**	–
Cost of materials consumed		**(106,399)**	(99,108)
Employee benefits expense		**(78,238)**	(66,158)
Depreciation	8	**(58,432)**	(61,544)
Other expenses	8	**(74,678)**	(61,474)
Operating loss		**(36,520)**	(30,159)
Gain on early termination of leases, net		**13**	21,059
Impairment loss on amount due from a non-controlling shareholder		**(9,858)**	–
Impairment loss on property, plant and equipment, net		**(406)**	(5,015)
Impairment loss on right-of-use assets, net		**(14,309)**	(13,534)
Impairment loss on intangible assets		**(28,695)**	–
Finance costs	9	**(11,533)**	(13,201)
Loss before income tax		**(101,308)**	(40,850)
Income tax	10	**1,150**	74
Loss for the year		**(100,158)**	(40,776)
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss:			
Exchange difference arising from translation of financial statements of foreign operations		**1,104**	3,214
Total comprehensive loss for the year		**(99,054)**	(37,562)
Loss attributable to:			
Owners of the Company		**(92,450)**	(39,817)
Non-controlling interests		**(7,708)**	(959)
		(100,158)	(40,776)
Total comprehensive loss attributable to:			
Owners of the Company		**(91,267)**	(36,850)
Non-controlling interests		**(7,787)**	(712)
		(99,054)	(37,562)
Basic loss per share	12	**HK cent (9.25)**	HK cent (3.98)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	Notes	2021 *HK$'000*	2020 *HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**44,629**	63,216
Right-of-use assets		**85,769**	131,654
Intangible assets		**–**	30,516
Rental deposits		**12,773**	14,871
Deposits placed for life insurance policies		**2,247**	2,176
Deposit paid for property, plant and equipment		**–**	1,873
Deferred tax assets		**–**	852
		145,418	245,158
Current assets			
Inventories		**13,893**	12,375
Trade receivables	13	**2,302**	5,462
Deposits, prepayments and other receivables		**10,250**	18,006
Loan receivable		**3,706**	10,000
Current tax recoverable		**42**	855
Amount due from a non-controlling shareholder		**–**	9,825
Amounts due from related companies		**9**	70
Pledged bank deposit		**4,076**	–
Cash and cash equivalents		**26,817**	28,949
		61,095	85,542
Total assets		**206,513**	330,700
EQUITY			
Equity attributable to owners of the Company			
Share capital	14	**10,000**	10,000
Reserves		**(45,318)**	45,949
		(35,318)	55,949
Non-controlling interests		**(3,682)**	4,105
Total (deficit)/equity		**(39,000)**	60,054

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)
As at 31 December 2021

	Notes	**2021** *HK$'000*	2020 *HK$'000*
LIABILITIES			
Non-current liabilities			
Lease liabilities		**102,999**	128,209
Provision for reinstatement costs		**3,833**	4,573
Deferred tax liabilities		**279**	2,902
		107,111	135,684
Current liabilities			
Trade payables	15	**16,646**	19,418
Accruals and other payables		**32,443**	29,329
Amount due to a non-controlling shareholder		**723**	241
Amount due to a related company		**307**	–
Contract liabilities		**23,451**	21,823
Bank borrowings	16	**24,724**	22,408
Lease liabilities		**38,168**	40,431
Current tax payable		**28**	–
Provision for reinstatement costs		**1,912**	1,312
		138,402	134,962
Total liabilities		**245,513**	270,646
Total (deficit)/equity and liabilities		**206,513**	330,700
Net current liabilities		**(77,307)**	(49,420)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Li Bao Ge Group Limited (the "**Company**") was incorporated in the Cayman Islands on 1 September 2015 as an exempted company with limited liability under the Companies Law (2013 Revision) of the Cayman Islands. The address of the Company's registered office and principle place of business are Windward 3, Regatta Office Park, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands and Room B, 5/F, On Fat Industrial Building, 12–18 Kwai Wing Road, Kwai Chung, New Territories, Hong Kong, respectively. The Company's shares (the "**Shares**") are listed on the Main Board of the Stock Exchange.

The Company is an investment holding company and its subsidiaries (collectively, the "**Group**") are principally engaged in the operation of a chain of Chinese restaurants in Hong Kong and the People's Republic of China (the "**PRC**").

2 STATEMENT OF COMPLIANCE WITH HONG KONG FINANCIAL REPORTING STANDARDS

The consolidated financial statements for the year ended 31 December 2021 have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**"), which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("**HKASs**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Listing Rules.

The consolidated financial statements have been prepared under the historical cost convention.

3 PRINCIPAL ACCOUNTING POLICIES

During the year ended 31 December 2021, the Group recorded a consolidated net loss of approximately HK$99,054,000 and, as of that date, the Group had net liabilities of approximately HK$39,000,000 and its current liabilities exceeded its current assets by approximately HK$77,307,000. Notwithstanding the above results, the consolidated financial statements have been prepared on a going concern basis, the validity of which is dependent upon the success of the Group's future operations, its ability to generate adequate cash flows in order to meet its obligations as and when fall due and its ability to refinance or restructure its borrowings such that the Group can meet its future working capital and financing requirements.

The Group has taken a number of measures to improve its liquidity position, including, but not limited to, the following:

(i) the Group had interest-bearing bank borrowings of approximately HK$24,724,000 as at 31 December 2021, of which approximately HK$3,957,000 is repayable within one year. The remaining interest-bearing bank borrowings, amounting to approximately HK$20,767,000 were classified as current liabilities due to the existence of a repayment on demand clause in the loan agreements. The Group will actively negotiate with the bank for the renewal of the Group's bank borrowings when they fall due in order to secure necessary funds to meet the Group's working capital and financial requirements in the foreseeable future. In the opinion of the Directors, the Group will be able to roll over or refinance the bank borrowings upon their maturity;

(ii) at 31 December 2021, the Group obtained banking facilities of approximately HK$33,830,000 with an unutilised amount of approximately HK$7,128,000;

(iii) the Group is actively negotiating with banks to obtain additional funds to finance the Group's working capital and improve the liquidity positions;

(iv) the Group will continue to take active measures to control expenses through various channels including human resources optimisation and management remuneration adjustments; and

(v) a substantial shareholder of the Company has agreed to continuously provide financial support for the continuing operations of the Company so as to enable it to meet its liabilities when they fall due and carry on its business without a significant curtailment of operations.

After taking into consideration of the above factors and funds expected to be generated internally from operations based on the Directors' estimation on the future cash flows of the Group, the Directors are of the opinion that there will be sufficient financial resources available to the Group to enable it to meet its liabilities as and when they fall due and to continue as a going concern. Accordingly, the Directors have prepared the consolidated financial statements on a going concern basis.

The accounting policies and methods of computation adopted are consistent with those followed in the preparation of the Group's consolidated financial statement for the year ended 31 December 2020, except for the amendments issued by the HKICPA that are adopted for the first time for the current year's consolidated financial statements. The Group had changed its accounting policies for the adoption of Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 "Interest Rate Benchmark Reform – Phase 2" and Amendment to HKFRS 16 "COVID-19 related rent concessions" which are effective for accounting periods beginning on or after 1 January 2021. The adoption of these amendments did not have any material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these consolidated financial statements. The Group had not early adopted any new or revised standards or interpretations that have been issued but are not yet effective.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results.

5 SEGMENT INFORMATION

The chief operating decision maker ("**CODM**") has been identified as the chief executive officer of the Company (the "**CEO**") who reviews the Group's internal reporting in order to assess performance and allocate resources. The CODM has determined the operating segments based on these reports.

The CODM assesses the performance based on a measure of profit after income tax. The CODM considers all business is included in a single operating segment.

The Group is principally engaged in the operation of food catering services through a chain of Chinese restaurants. Information reported to the CODM for the purpose of resources allocation and performance assessment focuses on the operation results of the Group as a whole as the Group's resources are integrated and no discrete operating segment financial information is available. Accordingly, the Group has identified one operating segment – operation of restaurants and no operating segment information is presented.

For the years ended 31 December 2020 and 2021, there are no single external customers contributed more than 10% revenue of the Group.

Geographical information

The following table presents revenue from external customers for the years ended 31 December 2020 and 2021 by geographic area.

	2021	2020
	HK$'000	*HK$'000*
Revenue from external customers		
Hong Kong	**76,944**	79,479
Mainland China	**197,622**	156,918
	274,566	236,397

The revenue information above is based on the locations of the customers.

	2021	2020
	HK$'000	*HK$'000*
Non-current assets		
Hong Kong	**12,542**	45,177
Mainland China	**117,856**	180,209
	130,398	225,386

The non-current assets information above is based on the locations of the assets and excludes financial assets and deferred tax assets.

6 REVENUE

An analysis of revenue during the years ended 31 December 2020 and 2021 are as follows:

	2021	2020
	HK$'000	*HK$'000*
Revenue from customers and recognised at point in time		
Revenue from Chinese restaurant operations	**244,934**	208,972
Revenue from Thai Cuisine restaurant operations	**10,210**	7,553
Revenue from cooperation with Freshippo	**18,826**	19,646
Revenue from sale of food ingredients	**596**	226
	274,566	236,397

7 OTHER INCOME

	2021	2020
	HK$'000	*HK$'000*
Interest income on short-term bank deposits	**54**	60
Interest income on loan receivable	**300**	–
Interest income from deposits placed for life insurance policies	**113**	101
Reversal of provision for reinstatement cost	**204**	338
Reversal of impairment loss on trade receivables	**98**	–
Government subsidies and incentive	**3,569**	9,207
Government grants	**2,214**	11,340
Miscellaneous income	**104**	682
	6,656	21,728

8 DEPRECIATION AND OTHER EXPENSES

	2021	2020
	HK$'000	*HK$'000*
Depreciation		
– Property, plant and equipment	**19,119**	17,739
– Right-of-use assets	**39,313**	43,805
	58,432	61,544

Other expenses include the following items:		
Auditor's remuneration		
– Audit services	**1,000**	814
– Non audit services	**282**	209
Amortisation on intangible assets	**1,874**	729
Operating lease payments of premises		
– Contingent rent for premises (i)	**1,743**	817
– Coronavirus disease 2019 ("**COVID-19**") rent concessions	**(3,224)**	(8,276)
– Variable lease payment	**687**	1,614
Lease payments not included in the measurement of lease liabilities	**4,026**	3,626
Impairment loss on trade receivables	**–**	209
Property, plant and equipment written-off	**5,831**	4,770
Trade and other receivables written-off	**2,072**	–
VAT recoverable written-off (ii)	**2,511**	–

(i) The contingent rent refers to the operating rentals based on pre-determined percentage to the restaurant revenue less minimum rentals of the respective leases.

(ii) The VAT recoverable written-off was mainly derived from the dormant subsidiaries. These dormant subsidiaries are still entitled to the VAT recoverable. Given that these dormant subsidiaries ceased their business, the management of the Company considered the probability of utilising such VAT recoverable to be remote.

9 FINANCE COSTS

	2021	2020
	HK$'000	*HK$'000*
Interest expenses on bank borrowings	**634**	252
Interest expenses on lease liabilities	**10,899**	12,897
Interest expenses on other borrowing	**–**	52
Total interest expenses on financial liabilities not at fair value through profit or loss	**11,533**	13,201

10 INCOME TAX

	2021	2020
	HK$'000	*HK$'000*
Current tax		
Current tax on profits for the year		
– Hong Kong	**–**	–
– The PRC	**556**	84
Underprovided/(overprovided) in prior year	**75**	(129)
Deferred tax	**631**	(45)
Origination and reversal of temporary differences	**(1,781)**	(29)
Income tax credit	**(1,150)**	(74)

No provision for Hong Kong profits tax is made in the consolidated financial statements as the Group has no assessable profits derived in Hong Kong for the year ended 31 December 2020 and 2021.

According to the PRC Enterprise Corporate Tax Law promulgated by the PRC government, the PRC's statutory income tax rate is 25%. Except for certain preferential tax treatment available to one of its subsidiaries of the Group, the other PRC subsidiaries are subject to income tax at the rate of 25% for the years ended 31 December 2020 and 2021.

11 DIVIDEND

The Board has resolved not to recommend the payment of any final dividend for the year ended 31 December 2021 (2020: Nil).

12 LOSS PER SHARE

The calculation of basic loss per share attributable to the owners of the Company is based on the following data:

	2021	2020
	HK$'000	*HK$'000*
Loss		
Loss for the year attributable to the owners of the Company	**(92,450)**	(39,817)

	2021	2020
	'000	*'000*
Number of Shares		
Weighted average number of shares for the purpose of calculating basic loss per share	**1,000,000**	1,000,000

Diluted loss per share was the same as basic loss per share as there were no potential dilutive ordinary shares outstanding for the years ended 31 December 2020 and 2021.

13 TRADE RECEIVABLES

	2021	2020
	HK$'000	*HK$'000*
Trade receivables	**2,536**	5,787
Less: Allowance for impairment losses	**(234)**	(325)
	2,302	5,462

The Group's sales from its restaurant operations are mainly conducted in cash or by credit cards. The credit period granted by the Group to its customers ranges from 0 to 30 days.

The ageing analysis of trade receivables based on invoice date (net of allowance for impairment losses) is as follows:

	2021	2020
	HK$'000	*HK$'000*
0 to 30 days	**1,805**	4,635
31 to 60 days	**207**	184
61 to 90 days	**52**	174
Over 90 days	**238**	469
	2,302	5,462

The Group applies simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

14 SHARE CAPITAL

	Number of Ordinary shares	Nominal value of Ordinary share *HK$'000*
Authorised:		
Ordinary shares of HK$0.01 each as at 1 January 2020, 31 December 2020 and 2021	2,000,000,000	20,000
Issued and fully paid:		
As at 1 January 2020, 31 December 2020 and 2021	1,000,000,000	10,000

15 TRADE PAYABLES

The ageing analysis of trade payables based on invoice date is as follows:

	2021 *HK$'000*	2020 *HK$'000*
0 to 30 days	**6,943**	8,708
31 to 60 days	**3,443**	7,334
61 to 90 days	**1,256**	906
Over 90 days	**5,004**	2,470
	16,646	19,418

16 BANK BORROWINGS

	2021 *HK$'000*	2020 *HK$'000*
Bank overdraft – unsecured	**1,102**	–
Bank borrowings due for repayment within one year – unsecured	**2,855**	3,099
Bank borrowings due for repayment after one year which contain a repayment on demand clause – unsecured	**20,767**	19,309
	24,724	22,408

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND OPERATIONAL REVIEW

The Group is a Chinese restaurant group recognised for delivering Cantonese cuisine and Chinese banquet and dining services.

For the year ended 31 December 2021, the Group operated four full-service restaurants in Hong Kong under the brand name of "Star of Canton (利寶閣) (including the Kwun Tong Restaurant which was closed in November 2021), a Thai cuisine restaurant in Hong Kong, under the brand name of "La Maison D' Elephant (象屋)" (the "**Thai (Mongkok) Restaurant**") in a shopping mall in Mongkok district, three full-service restaurants in Shenzhen, the PRC, under the brand name of "Star of Canton (利寶閣)" and five food counters in Shenzhen and Shanghai under the brand name of "Star of Canton (利寶閣)" of which four food counters were closed during 2021. The Group had also operated twenty food counters in Shanghai, the PRC, under the brand name of "Sun Kau Kee (新玖記)" which were all closed during 2021 due to their unsatifactory performance.

Due to continued unsatisfactory customer visit, and the unfavourable market conditions, the Group did not renew the lease (which expired on 30 November 2021) for the Kwun Tong Restaurant and ceased the operation of the Kwun Tong Restaurant in November 2021 to avoid further loss and make available the occupied working capital for other operation needs of the Group.

All of the Group's restaurants are strategically situated in landmark shopping arcades or commercial complexes at prime locations. The Group maintains a business philosophy of offering quality food and services at reasonable prices in an elegant and comfortable dining setting. All of the Group's restaurants target at mid-to-high end spending customers.

As at 31 December 2021, the Group had,

in Hong Kong:

(i) three Chinese restaurants, which were located in Tsim Sha Tsui (i.e. The One Restaurant), Causeway Bay (i.e. the CWB Restaurant) and Olympian City (i.e. the Olympian Restaurant), respectively;

(ii) one Thai cuisine restaurant (i.e. the Thai (Mongkok) Restaurant) located in Mongkok;

in Shenzhen, the PRC:

(iii) three Chinese restaurants, which were located in Futian District (i.e. the Shenzhen Restaurant and the Shenzhen One Avenue Restaurant) and Baoan District (i.e. the Shenzhen Uniwalk Restaurant), respectively; and *in Shanghai, the PRC:*

(iv) one food counter inside Shanghai Freshippo store.

Due to the impact of the Pandemic, the expansion plan of the Group has been delayed.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2021, the Group recorded a total revenue of approximately HK$274.6 million, representing an increase of approximately 16.2% as compared to approximately HK$236.4 million for the year ended 31 December 2020.

The Group's total revenue for the year ended 31 December 2021 mainly comprised the aggregate revenue of the four Chinese restaurants in Hong Kong of approximately HK$66.7 million (2020: six Chinese restaurants in Hong Kong of approximately HK$71.7 million), the revenue from the sales of food ingredients of approximately HK$0.6 million (2020: approximately HK$0.2 million), the revenue of the Thai (Mongkok) Restaurant of approximately HK$10.2 million (2020: approximately HK$7.6 million), the aggregate revenue from the three Chinese restaurants in Shenzhen, the PRC, of approximately HK$178.2 million (2020: approximately HK$136.6 million), and the aggregate revenue from Freshippo operation inside Shenzhen and Shanghai Freshippo stores of approximately HK$18.8 million (2020: approximately HK$19.6 million).

Excluding the revenue contributed by the Kwun Tong Restaurant which ceased operation in November 2021, the aggregate revenue of the Group's three Chinese restaurants in Hong Kong for the year ended 31 December 2021 increased by approximately 8.6% as compared to the year ended 31 December 2020. The aggregate revenue of the Group's three Chinese restaurants in Shenzhen increased by approximately 30.4% over the same period. The Directors consider such increases in revenue for Hong Kong was mainly due to slight improvement in consumer confidence level for dine in especially in the second half of 2021 and for Shenzhen was mainly due to recovery of economic activities after stabilisation of the Pandemic in PRC.

Gross profit

The Group's gross profit (i.e. revenue minus cost of materials consumed) amounted to approximately HK$168.2 million for the year ended 31 December 2021, representing an increase of approximately 22.5% from approximately HK$137.3 million for the year ended 31 December 2020, which was in line with the increase in revenue in PRC during the year.

Employee benefits expense

Employee benefits expense was approximately HK$78.2 million for the year ended 31 December 2021 (2020: approximately HK$66.2 million), representing an increase of approximately 18.3% as compared to 2020 which was mainly due to the increase in staff cost in PRC during the year ended 31 December 2021. Thanks to the Group's staff cost control measures, the employee benefits expense of its restaurant staff maintained at a stable level in terms of percentage of revenue as compared to the corresponding period of the year ended 31 December 2020. Going forward, the Group will continue to closely monitor the cost control in respect of staff salaries, and at the same time regularly review the work allocation of the staff in order to improve the work efficiency and maintain a quality standard of service.

Depreciation

Depreciation for the year ended 31 December 2021 was approximately HK$39.3 million (2020: HK$43.8 million) in respect of right-of-use assets in relation to the Group's leased properties.

Other expenses

Other expenses mainly include but not limited to expenses incurred for the Group's restaurant operation, consisting of operating lease expenses, building management fee and air conditioning charges, cleaning and laundry expenses, utility expenses, service fees to temporary workers, advertising and promotion. For the year ended 31 December 2021, other expenses amounted to approximately HK$74.7 million (2020: HK$61.5 million), representing an increase of approximately HK$13.2 million or 21.5% which was mainly due to the combined effects of (i) the trade and other receivables written-off by approximately HK$2.1 million; (ii) VAT recoverable written-off by approximately HK$2.5 million mainly derived from the dormant subsidiaries; (iii) the increase of property, plant and equipment written off by appropriately HK$1.1 million compare to 31 December 2020; (iv) the decrease of COVID-19 rent concessions by approximately HK$5.1 million compare to 31 December 2020; and (v) the increase of temporary staff costs by approximately HK$0.8 million compare to 31 December 2020, which was in line with the increase of revenue of approximately 16.2% compare to 31 December 2020.

Impairment losses on intangible assets, amount due from a non-controlling shareholder and right-of-use assets

The Company decided to use the brand name "Star of Canton (利寶閣)" in PRC instead of "Sun Kau Kee (新玖記)" in future and closed all food counters during 2021, In view of above reasons, the Company considered that the intangible assets of approximately HK$28.7 million were impaired. The Company considered one of the non-controlling shareholders defaulted his undertaking for repayment of the balance due from him of approximately HK$9.9 million. The net impairment loss on right-of-use assets amounting to approximately HK$14.3 million recognised in 2021 was due to the Chinese restaurants in Hong Kong continued to incur losses.

Finance costs

Finance costs for the year ended 31 December 2021 were approximately HK$10.9 million (2020: HK$12.9 million) in respect of interest expense on lease liabilities in relation to the Group's leased property, plant and equipment.

Loss attributable to owners of the Company

For the year ended 31 December 2021, the Group recorded a loss attributable to owners of the Company of approximately HK$92.5 million, whereas the Group recorded a loss attributable to owners of the Company of approximately HK$39.8 million for the year ended 31 December 2020. Such loss-making position for the year ended 31 December 2021, representing a decline of financial performance by approximately HK$52.6 million as compared to the last year, was mainly due to the combined effects of (i) the increase in aggregate operating losses of the Group's restaurant operations by approximately HK$6.4 million; (ii) the record of impairment losses on intangible assets of approximately HK$28.7 million; and (iii) the record of impairment losses on amount due from a non-controlling shareholder of approximately HK$9.9 million.

Liquidity, financial resources and capital structure

Capital Structure

The Group's objectives in managing capital are to safeguard its ability to continue as a going concern in order to provide returns for its Shareholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to its Shareholders, return capital to its Shareholders, issue new Shares or sell assets to reduce debt.

The Group monitors its capital on the basis of the gearing ratio. The Group's strategy, which was unchanged during the year ended 31 December 2021, was to maintain the gearing ratio at an acceptable level.

As at 31 December 2021, the Group's cash and cash equivalents were approximately HK$26.8 million, representing a decrease of approximately HK$2.1 million as compared with approximately HK$28.9 million as at 31 December 2020. The decrease was mainly due to increase in cash used in operations during the year.

As at 31 December 2021, cash and cash equivalents and restricted bank deposits amounted to approximately HK$30.9 million, of which approximately HK$10.2 million and HK$20.7 million were denominated in Hong Kong dollars ("**HK$**") and Renminbi ("**RMB**"), respectively.

Indebtedness and Banking Facilities

As at 31 December 2021, the Group had bank borrowings of approximately HK$23.6 million, bearing interest rates at 2.75% per annum and were guaranteed by The Hong Kong Special Administrative Region (the "**HKSAR**"), and bank overdraft of approximately HK$1.1 million bearing interest rates at 6.5% per annum was guaranteed by the Company.

As at 31 December 2021, the Group's gearing ratio, which is calculated based on the interest-bearing debts (excluding lease liabilities) divided by total equity attributable to owners of the Company (the "**Shareholders' Equity**"), was irrelevant as the Company has recorded a deficit in its Shareholders' Equity as at 31 December 2021. The Directors, taking into account the nature and scale of operations and capital structure of the Group, will closely monitor the gearing ratio and will adjust its business strategies to improve it to a reasonable level.

Foreign Exchange Exposure

Most of the income and expenditures of the Group are denominated in HK$ and RMB, which are the functional currencies of the respective group entities. Although HK$ is not pegged to RMB, the historical exchange rate fluctuation on RMB was not significant during the year under review. Thus, no significant exposure is expected on RMB transactions and balances. Accordingly, the Group does not have any material foreign exchange exposure. During the year ended 31 December 2021, the Group had not used any financial instruments for hedging purposes.

Securities in Issue

As at 31 December 2021, there were 1,000,000,000 ordinary shares in issue. There was no movement in the issued share capital of the Company during the year ended 31 December 2021.

Significant Investment Held, Material Acquisition or Disposal of Subsidiaries and Affiliated Companies and Plans for Material Investment or Capital Assets

There was no significant investment held, material acquisition or disposal of subsidiaries and affiliated companies during the year ended 31 December 2021. There was no plan for material investment or capital assets as at 31 December 2021.

Charge on Assets

As at 31 December 2021, the Group did not have any charge over its assets except for pledged bank deposit of approximately HK$4.1 million disclosed below (2020: Nil).

As at 31 December 2021, the balance of approximately HK$4.1 million (which was carried at the prevailing market interest rate at 0.1% per annum) represents deposit pledged at a bank to secure general banking facilities granted to the Group, and therefore classified as current assets. The pledged bank deposit was denominated in HK$.

Save as disclosed above, the Group did not have any charge over its assets as at 31 December 2021.

Contingent Liabilities

On 31 December 2019, Excel Linker (Hong Kong) Limited, an indirect wholly-owned subsidiary of the Company received a Writ of Summons together with an indorsement of claim dated 31 December 2019 issued in the High Court of the HKSAR (the "**Court Action**") by Foxhill Investments Limited as plaintiff against Excel Linker (Hong Kong) Limited as defendant. For details, please refer to the announcement tilted "Inside Information – Litigation" dated 6 January 2020. A provision of HK$6.0 million has been made in the consolidated financial statements as at 31 December 2021 (2020: HK$3.5 million). The Company is currently seeking legal advice in respect of the foregoing. The Company is of the view that the Court Action did not and will not have any material adverse impact on the ordinary operation and financial positions of the Group. To the best knowledge of the Directors, no trial in relation to the Court Action has been scheduled yet.

Saved as disclosed above, as at 31 December 2021, the Group did not have any material contingent liabilities.

Employees and Remuneration Policies

The Group had approximately 537 employees as at 31 December 2021 (2020: 683). The employee benefits expense, including Directors' emoluments, of the Group were approximately HK$78.2 million (2020: HK$66.2 million) increased by approximately 18.3% compared to 31 December 2020. The increase was due to the Chinese restaurants in China had a whole year operations for the year ended 31 December 2021, however, these restaurants only had approximately 10 months operations for the year ended 31 December 2020 as affected by the Pandemic.

The Directors and the senior management of the Company (the "**Senior Management**") receive compensation in the form of salaries and discretionary bonuses with reference to salaries paid by comparable companies, time commitment and the performance of the Group. The Group regularly reviews and determines the remuneration and compensation package of the Directors and the Senior Management with reference to, among other things, the market level of salaries paid by comparable companies, the respective responsibilities of the Directors and the Senior Management and the performance of the Group.

The remuneration committee of the Board (the "**Remuneration Committee**") reviews and determines the remuneration and compensation packages of the Directors with reference to their responsibilities, workload, the time devoted to the Group and the performance of the Group. The Directors may also receive options to be granted under the share option scheme adopted by the Company on 16 June 2016. During the year ended 31 December 2021, no share option was granted to the relevant participants pursuant to such scheme.

Dividend

The Board has resolved not to recommend the payment of any final dividend for the year ended 31 December 2021 (2020: Nil).

Prospects

Due to the uncertainties of the Hong Kong and China economies and the widely spread of the Pandemic in Hong Kong and China since January 2020 which seriously affected the catering industry and is expected to continue throughout 2022, the Directors anticipate that the Group's business will face various challenges in the foreseeable future. The Group's key risk exposures and uncertainties are summarised as follows:

(i) the Group's future success relies heavily on its ability to constantly offer menu items, creatively-designed banquet and dining services based on changing market trends and changing tastes, dietary habits, expectations and other preferences of the Group's target customers. As such, significant costs to survey and research customer trends and preferences and to develop and market new menu items, banquet and dining services may be required, this may place substantial burden on the Group's managerial and financial resources;

(ii) the operation of the Group may be affected by the price of the food ingredients, including the price of the imported food ingredients which will be affected by the fluctuating exchange rate;

(iii) there may be labour shortage in the future and competition for qualified individuals in the food and beverage industry may be intense;

(iv) the Hong Kong and China economies may be further worsened as a result of the unfavourable development of the China-US trade war which would negatively affect the consumption sentiments of the general public and consequently the retail and catering sectors; and

(v) the widely spread of the Pandemic in Hong Kong and China since January 2020, which may become serious and adversely affect the Group's restaurant operations in the year to come.

For other risks and uncertainties facing the Group, please refer to the section headed "Risk Factors" in the Company's prospectus dated 24 June 2016 (the "**Prospectus**").

Nonetheless, the management is optimistic that (i) the Pandemic will be stabilized in the second half of 2022 and created conditions for reopening the borders between Hong Kong and China; and (ii) the Group can succeed and enhance the Shareholders' value in the medium to long run, based on the years of experience of the Senior Management in managing Chinese restaurant business in Hong Kong and China and its business strategies as detailed below.

The Group is confidence that Hong Kong economy will be gradually recover in the second half of 2022 which may also improve the consumer confidence level in Hong Kong. The reopening of the borders between Hong Kong and China will help to accelerate the recovery rate of economic activities in Hong Kong to pre-pandemic levels.

Going forward, the Group will continue to utilise available resources to implement its business strategies, namely, steady growth and prudent expansion in Hong Kong with its multi-brand strategy, progressive expansion in the PRC market, continuing promotion of brand image and recognition through marketing initiatives, enhancement of existing restaurant facilities and strengthening of staff training aiming to attract more new customers. In addition, the Group will continue to develop the online shopping platform for Star Of Canton by putting more effort on promotion and marketing to serve its customers.

The Group will also consider the expansion of its catering business into other types of cuisines and operation modes when opportunities arise, taking into account the Group's available resources, with the aim to maximize the return to its Shareholders.

Effect of COVID-19

In view of the widely spread of the Pandemic in China and Hong Kong, the Group has been paying close attention to the development of the Pandemic and making efforts to prevent and control the spread of the virus. As part of the Group's efforts to facilitate better prevention and control of the virus and ensure the health and safety of its employees and customers, the Group has been shortening the operation hours of its restaurants in Hong Kong. Besides, the Hong Kong Government order for restaurants to increase spacing between tables and limit the number of customers further hit consumer sentiment and escalated business pressure on the Group. During the year ended 31 December 2021, the Group's restaurants in Hong Kong have resumed limited operation in evening hours because of the partial relaxation of the Hong Kong Government order since late February 2021. Subsequent to the year end, the Hong Kong Government has implemented the vaccine pass initiative in three stages. From 30 April 2022 and up to the date of this announcement, people aged 18 or above who enter catering premises are required to have received at least two doses of COVID-19 vaccine. In addition, the Hong Kong Government has relaxed its social distancing measures on catering business which include, among others, starting from 5 May 2022 and up the date of this announcement, restaurants are allowed to accommodate eight persons at most per table.

The Group will closely monitor the market situation and the development of the Pandemic, and will adjust its business strategies to cater for the market trend and customer demand in order to improve its financial performance going forward.

Use of proceeds from the Rights Issue

The Company's rights issue (the "**Rights Issue**") was completed on 17 December 2019 with net proceeds received by the Company in the amount of approximately HK$45.8 million after deducting underwriting commissions and related expenses. For details, please refer to the announcement titled "Results of the Rights Issue on the Basis of One Rights Share for Every Four Existing Shares Held on the Record Date" dated 16 December 2019.

As at 31 December 2021, the net proceeds from the Rights Issue were applied as follows:

	Planned use of net proceeds as stated in the listing documents dated 22 November 2019	**Actual use of net proceeds up to 31 December 2021**
	HK$'000	*HK$'000*
Repayment of the Group's indebtedness and interest expenses	7,500	7,500
Payment of renovation and refurbishment costs of the Group's restaurants	20,500	20,500
General working capital	17,800	17,800

As at 31 December 2021, approximately HK$45.8 million out of the net proceeds from the Rights Issue had been used in accordance with the planned usage as detailed above. As a result, all the net proceeds from the Rights Issue has been utilized as planned as at 31 December 2021.

EVENTS AFTER THE REPORTING DATE OF 31 DECEMBER 2021

The Company has provided an update on the inside information for a potential litigation. For details, please refer to the Company's announcement titled "Supplemental Announcement – Inside Information- Potential Litigation" dated 5 January 2022.

On 17 January 2022, the People's Court of Pudong New District of Shanghai* (上海市浦東新區人民法院) has accepted a civil action filed by two non-controlling shareholders (one of them is a legal representative) of a non-wholly owned subsidiary in the PRC, 上海志捷食品有限公司, regarding the request to liquidate the non-wholly owned subsidiary. The court hearing of the above legal action has been scheduled to begin on 23 May 2022. Based on the legal advice from the PRC legal advisor, the directors of the Company are of the view that the Group has valid grounds to oppose the liquidation of the subsidiary as requested by the non-controlling shareholders and expected that the above legal action will not have any material adverse impact on the business and/or operations of the Group.

Saved as disclosed above, the Board is not aware of any important event requiring disclosure that has taken place subsequent to 31 December 2021 and up to the date of this announcement.

* *For identification purpose only*

CORPORATE GOVERNANCE

The Company is committed to ensure a high standard of corporate governance in the interests of the Shareholders and devotes considerable effort to maintain high level of business ethics and corporate governance practices. The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") in Appendix 14 to the Listing Rules. The Company has applied the principles of, and complied with, the applicable code provisions of the CG Code for the year ended 31 December 2021, except for certain deviations as specified with considered reasons for such deviations which are explained below.

Under Code Provision A.2.1 (which has changed to C.2.1 since 1 January 2022) of the CG Code, the roles of the chairman and chief executive officer should be separated and should not be performed by the same individual.

For the year ended 31 December 2021, the Company has not separated the roles of chairman and the CEO. Mr. Chan Chun Kit was the chairman and also the CEO and is responsible for overseeing the operations of the Group during such period. In view of the fact that Mr. Chan has been operating and managing the Group since 1998, the Board believes that it is in the best interests of the Group to have Mr. Chan taking up both roles for effective management and business development. The Board also believes that vesting the roles of both chairman and CEO in the same person has the benefit of ensuring the consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. Although Mr. Chan performs both roles of chairman and CEO, the division of responsibilities between the two roles is clearly established. While the chairman is responsible for supervising the functions and performance of the Board, the CEO is responsible for the management of the Group's business. The Board considers that the balance of power and authority for the present arrangement will not be impaired given the appropriate delegation of the power of the Board to the Senior Management for the day-to-day management of the Group, and the effective functions of the independent non-executive Directors representing at least one-third of the Board such that no one individual has unfettered power of decisions. This structure will also enable the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider splitting the roles of chairman of the Board and CEO at a time when it is appropriate and suitable by taking into account the circumstances of the Group as a whole.

The Board will periodically review on the Company's corporate governance functions and will continuously improve the Company's corporate governance practices by assessing their effectiveness with evolving standards to meet changing circumstances and needs.

CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the required standard of dealings set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by Directors in respect of the Shares (the "**Code of Conduct**"). The Company has made specific enquiry to all Directors, and all Directors have confirmed that they have fully complied with the required standard of dealings set out in the Code of Conduct during the year ended 31 December 2021.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased or sold any of the listed securities of the Company during the year ended 31 December 2021. The Company did not redeem any of its listed securities during the year ended 31 December 2021.

SHARE OPTION SCHEME

The share option scheme of the Company (the "**Share Option Scheme**") was adopted pursuant to a resolution passed by the Shareholders on 16 June 2016 for the primary purpose of providing eligible participants an opportunity to have a personal stake in the Company and to motivate, attract and retain the eligible participants whose contributions are important to the long-term growth and profitability of the Group. Eligible participants of the Share Option Scheme include any employees, any executives, non-executive Directors (including independent non-executive Directors), advisors, consultants of the Company or any of its subsidiaries.

The Share Option Scheme became effective on the Listing Date and, unless otherwise cancelled or amended, will remain in force for 10 years commencing on the Listing Date, the principal terms of which were summarised in the paragraph headed "Share Option Scheme" in Appendix IV to the Prospectus.

No share options were granted, exercised or cancelled by the Company under the Share Option Scheme during the year ended 31 December 2021 and there were no outstanding share options under the Share Option Scheme as at 31 December 2021.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The forthcoming annual general meeting (the "**AGM**") is scheduled to be held at Room B, 5/F, On Fat Industrial Building, 12–18 Kwai Wing Road, Kwai Chung, New Territories, Hong Kong on Friday, 24 June 2022 at 10:00 a.m. For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 21 June 2022 to Friday, 24 June 2022, both days inclusive, during which period no transfer of the Shares will be registered. In order to attend and vote at the AGM, all share transfer documents accompanied by the relevant share certificates must be lodged with the Share Registrar, Boardroom Share Registrars (HK) Limited, at 2103B, 21st Floor, 148 Electric Road, North Point, Hong Kong, for registration not later than 4:30 p.m. on Monday, 20 June 2022.

AUDIT COMMITTEE AND REVIEW OF ACCOUNTS

The Company has established the Audit Committee with written terms of reference in compliance with the Listing Rules and the CG Code. The Audit Committee reviews, amongst others, the financial information of the Group, the relationship with and terms of appointment of the external auditors, and the Company's financial reporting system, internal control system and risk management system.

As at the date of this announcement, the Audit Committee consists of three independent non-executive Directors, chaired by Mr. Lee Cheung Yuet Horace and the other two members are Mr. Kan Sze King Kenneth and Mr. Chan Ming Kei.

The consolidated financial statements of the Group for the year ended 31 December 2021 have been reviewed by the Audit Committee in accordance with Listing Rule 13.49(3)(c).

SCOPE OF WORK OF TING HO KWAN & CHAN CPA LIMITED

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2021 as set out in this results announcement have been agreed by the Group's auditor, Ting Ho Kwan & Chan CPA Limited, to the amounts set out in the Group's consolidated financial statements for the year. The work performed by Ting Ho Kwan & Chan CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ting Ho Kwan & Chan CPA Limited on this results announcement.

EXTRACTS OF THE INDEPENDENT AUDITOR'S REPORT

The following is an extract of the independent auditor's report on the Group's consolidated financial statements for the year ended 31 December 2021.

The independent auditor's report will be contained in the 2021 Annual Report of the Company to be published on 13 May 2022.

Opinion

We have audited the consolidated financial statements of Li Bao Ge Group Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 130 to 250, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("**the Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to note 3.1 to the consolidated financial statements which indicates that the Group incurred a net loss of approximately HK$99,054,000 during the year ended 31 December 2021. As of that date, the Group had a net liabilities of approximately HK$39,000,000 and its current liabilities exceeded its current assets by approximately HK$77,307,000. As stated in note 3.1, these conditions, along with other matters as set forth in note 3.1 to the consolidated financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.starofcanton.com.hk). The annual report of the Company for the year ended 31 December 2021 containing all the information required by the Listing Rules will be dispatched to the Company's shareholders and posted on the above websites in due course.

By Order of the Board
Li Bao Ge Group Limited
Chan Chun Kit
Chairman and Executive Director

Hong Kong, 13 May 2022

As at the date of this announcement, the executive Directors are Mr. Chan Chun Kit, Ms. Chan Josephine Wai Sze and Ms. Zhu Xueqin; the non-executive Director is Mr. Chow Yiu Pong David; and the independent non-executive Directors are Mr. Lee Cheung Yuet Horace, Mr. Kan Sze King Kenneth and Mr. Chan Ming Kei.